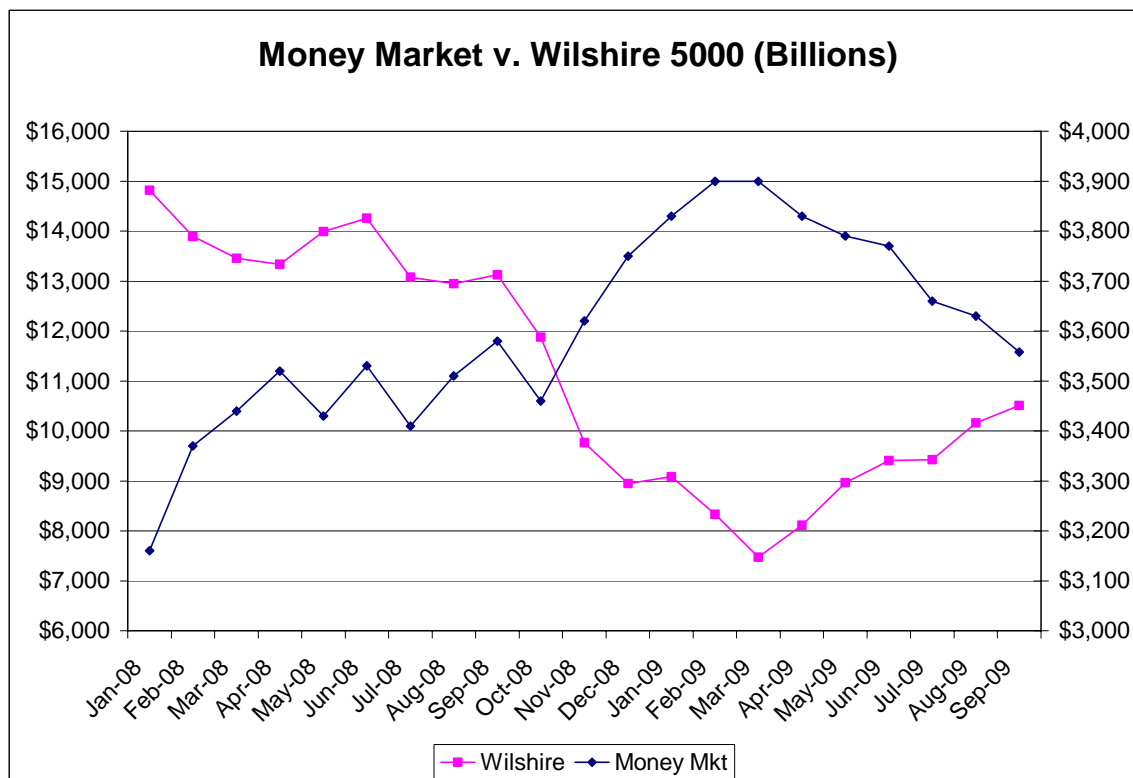


Note

RE: Voting Machine Evidence

Years ago, Benjamin Graham observed, “*In the Short-Term, Stocks are a Voting Machine and in the Long-Term, Stocks are a Weighing Machine.*” We’ve produced quite a bit of evidence through the years making the latter case (Market P/V, Siegel’s Chart, etc.), but yesterday, Eugene collected some data convincingly making the former case we want to share.



The chart above lists the monthly change in Wilshire 5000 MktCap (left axis) v. the monthly change in Money Market (right axis). Not surprisingly, they’re virtually mirror images with close to perfect inverse correlation (-0.91). From the beginning of 2008 through the Mar09 peak of the panic, almost \$0.8 Trillion dollars flooded into the safety of Money Market, knocking stock market valuation roughly in half. Since Mar09, a little over half of this excess Money Market (\$422B) has been liquidated, which has driven the market’s impressive rally to date. The balance of the stock market recovery will occur as the rest of this excess Money Market is liquidated, which if the current pace were to continue, would occur in a matter of several more months.

This is consistent with the stock market’s violent snapback pattern following previous panics. The Crash of ’87 was a similar scale panic and it took just 19 months for stocks to fully erase all the losses of that calamity. Thus far, this recovery is running well ahead of that schedule.

Lowell